

Real Estate Development Foundations

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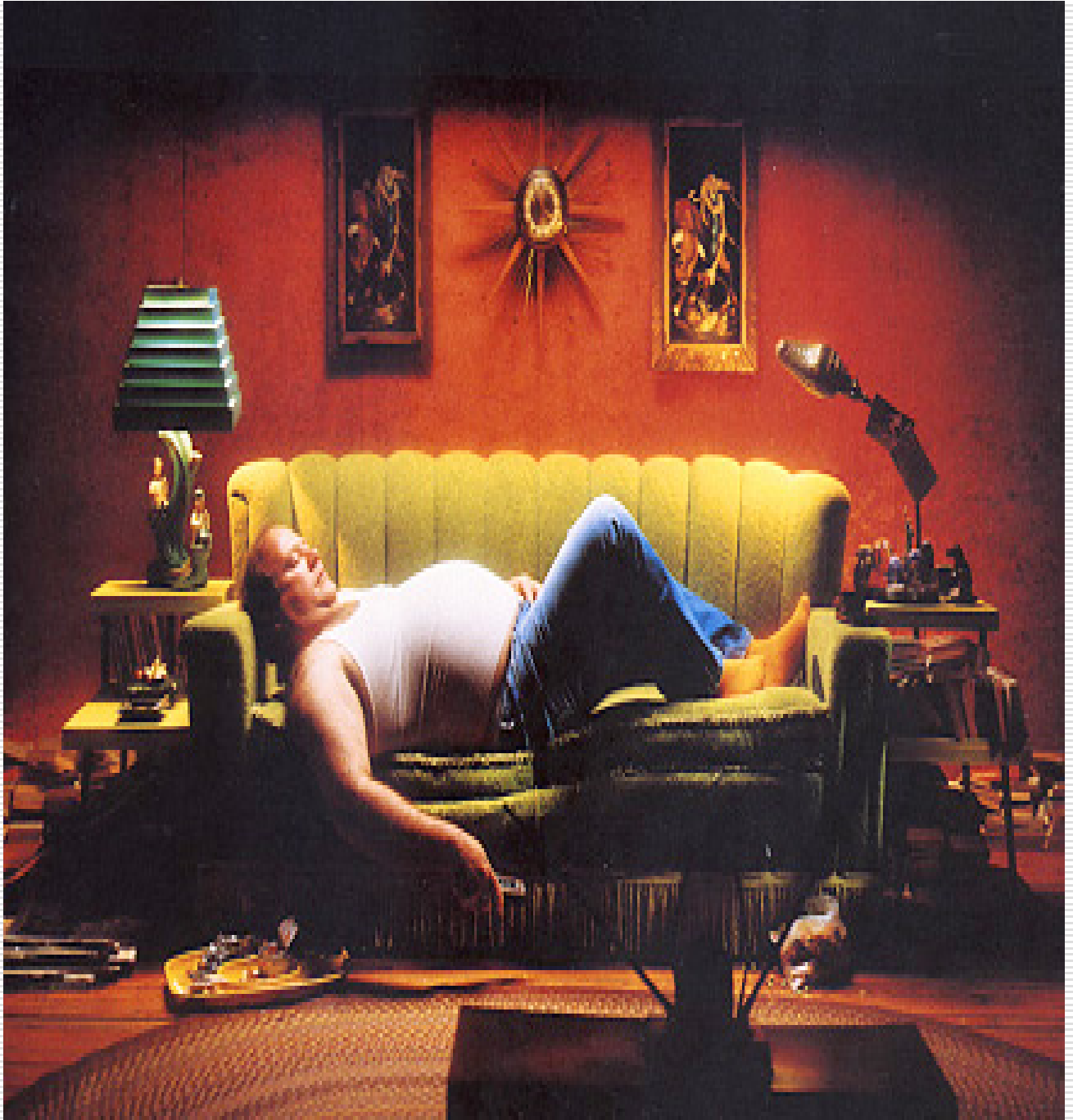
GOALS

STYLE AND CLASS

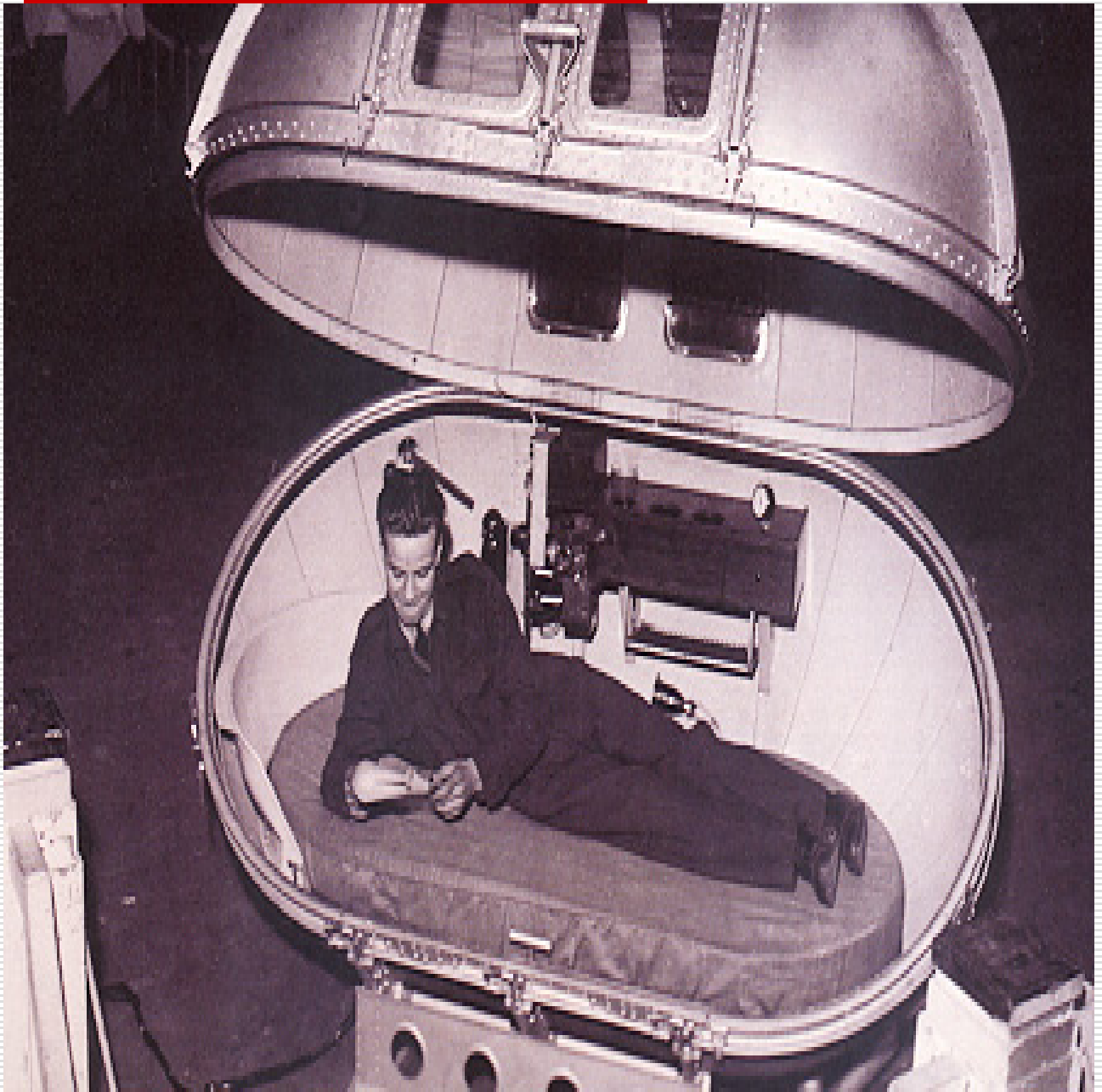
Professionalism



**Be Proactive
(individual below failed Dr.
Musil's class)**



ANTI-DEVELOPMENT ENVIRONMENT



CRITICAL FACTORS

- MARKET DEMANDS
- FINANCING REQUIREMENTS
- CITIZEN AND COMMUNITY INTERESTS
- LOCAL UNIT OF GOVERNMENT DEMANDS/REQUIREMENTS
- STATE AND REGIONAL GOVERNMENT
- DEVELOPER REQUIREMENTS

Negotiation Model for Development Project Approval

Project



- Market Demand**
- **Project Costs**
 - **Design Requirements**
 - **Project Attributes**
 - **Competition**
-

Negotiation Model for Development Project Approval

Financing Requirements

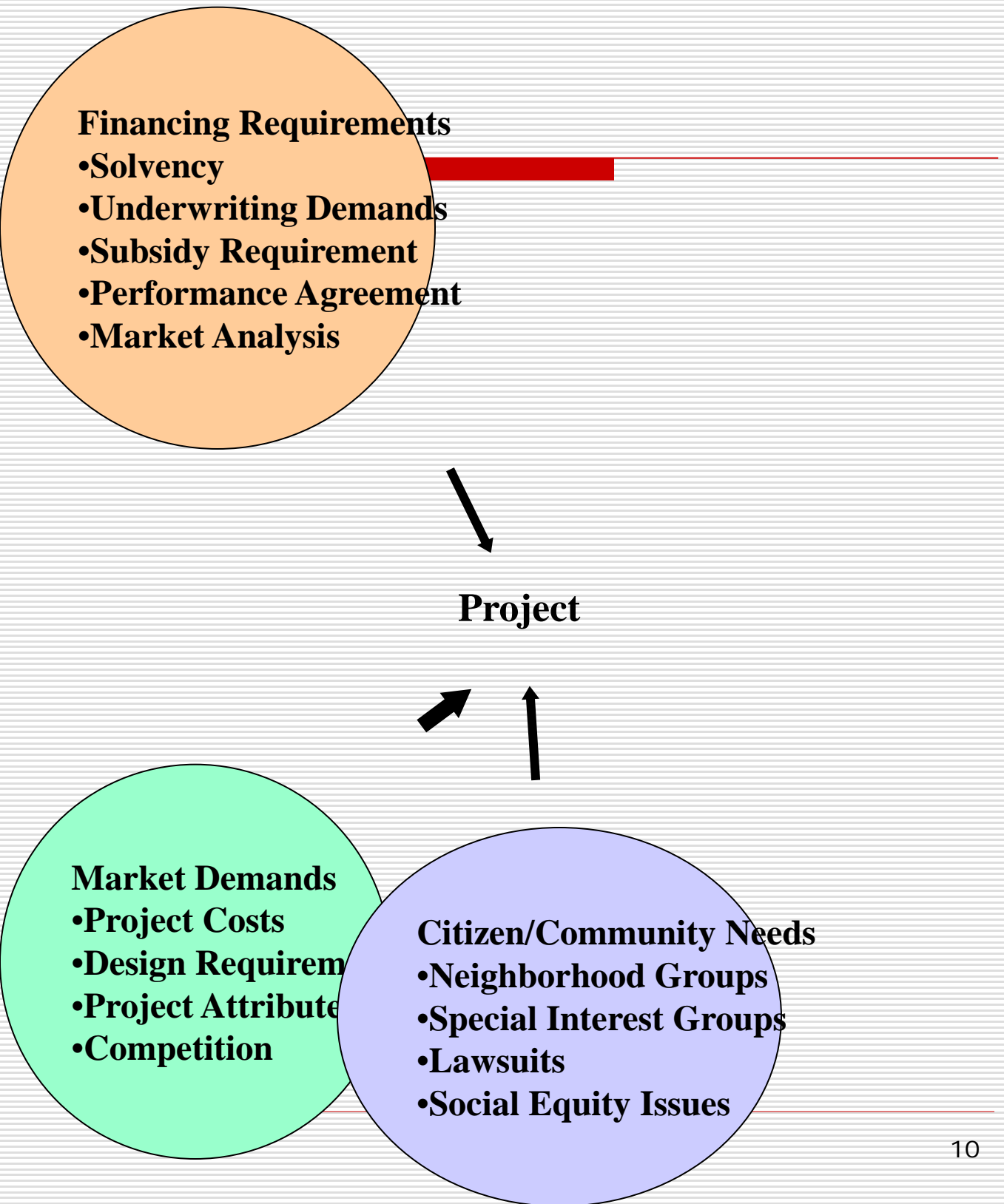
- Solvency
- Underwriting Demands
- Subsidy Requirement
- Performance Agreement
- Market Analysis

Project

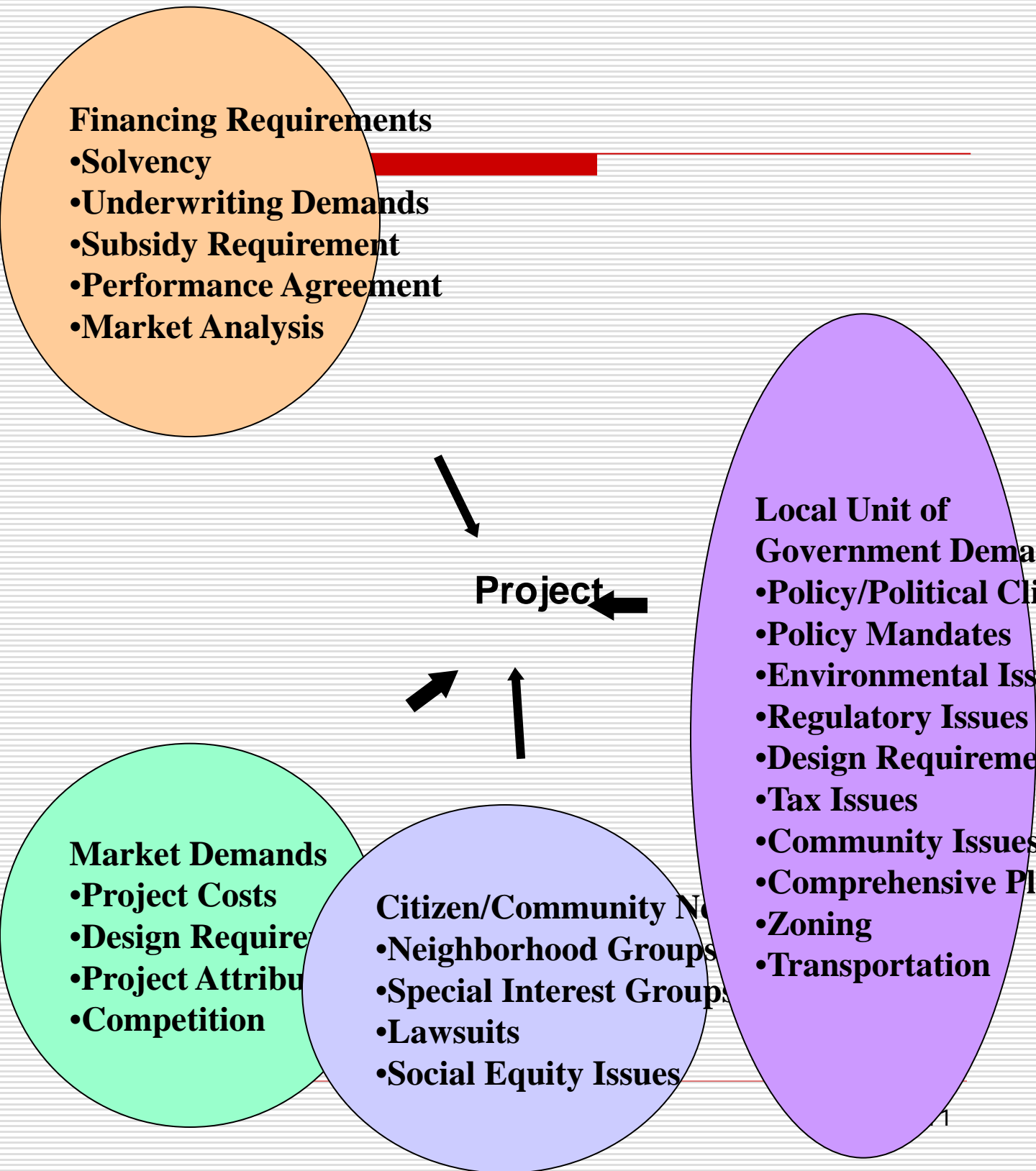
Market Demands

- Project Costs
- Design Requirements
- Project Attributes
- Competition

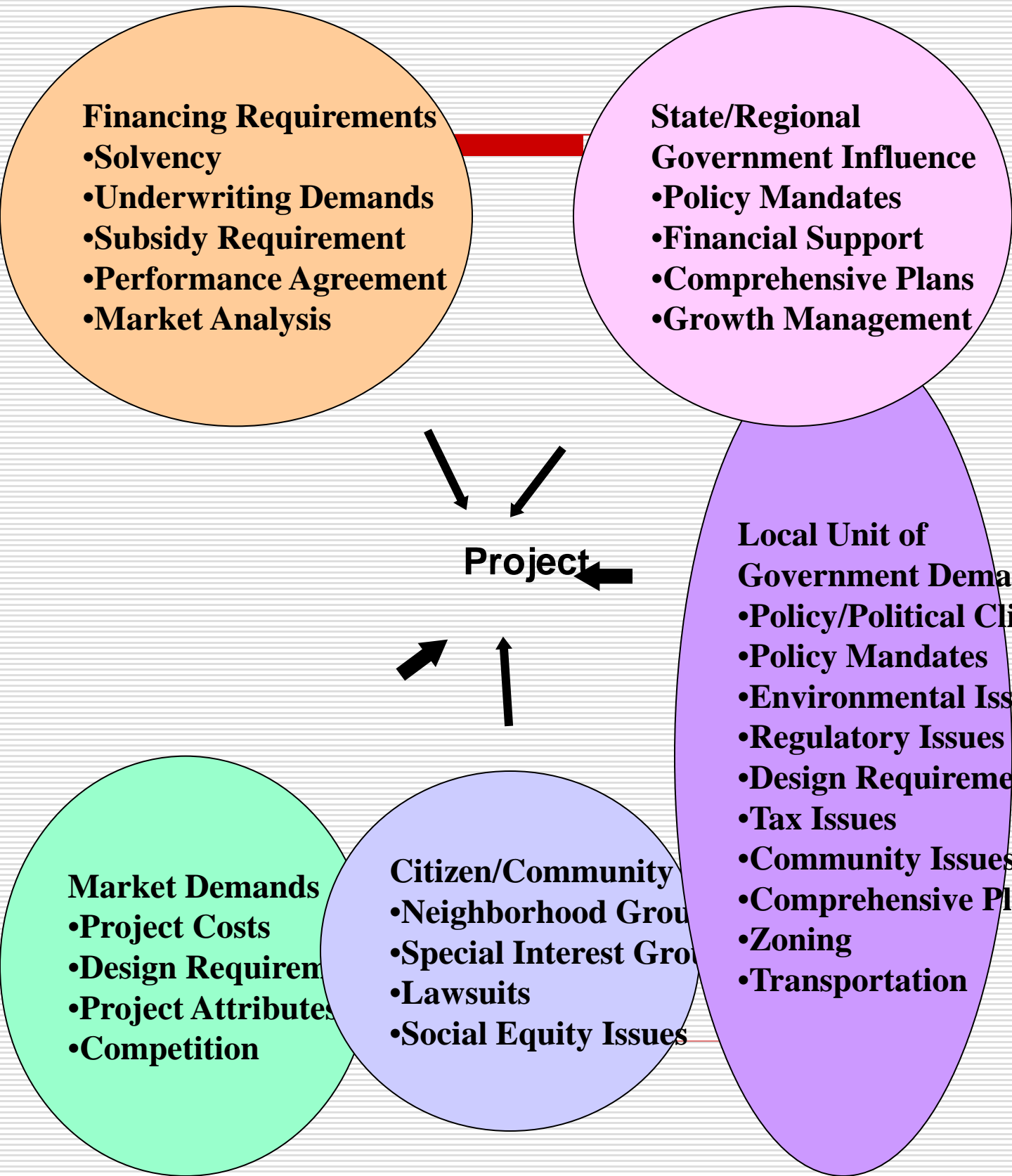
Negotiation Model for Development Project Approval



Negotiation Model for Development Project Approval

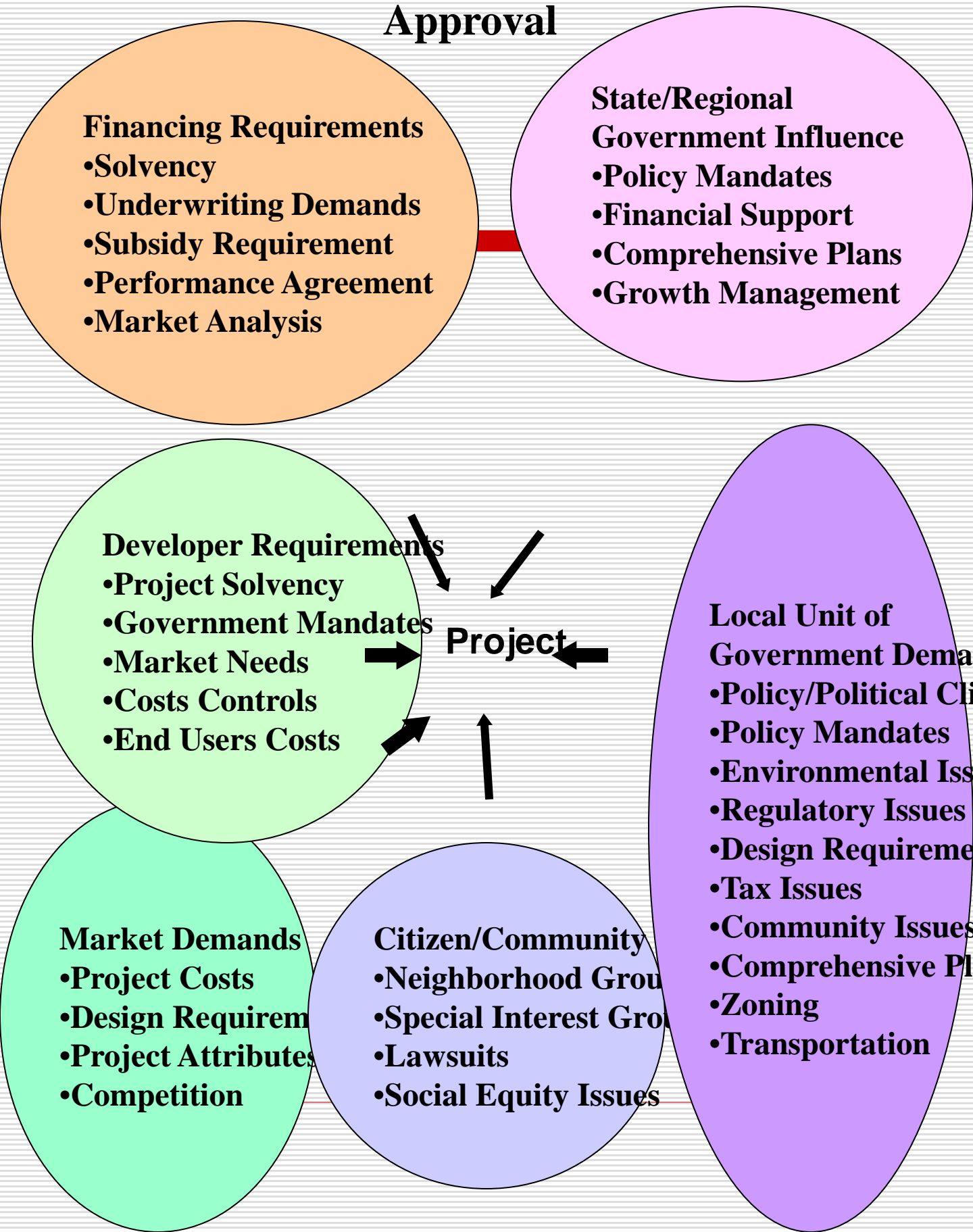


Negotiation Model for Development Project Approval



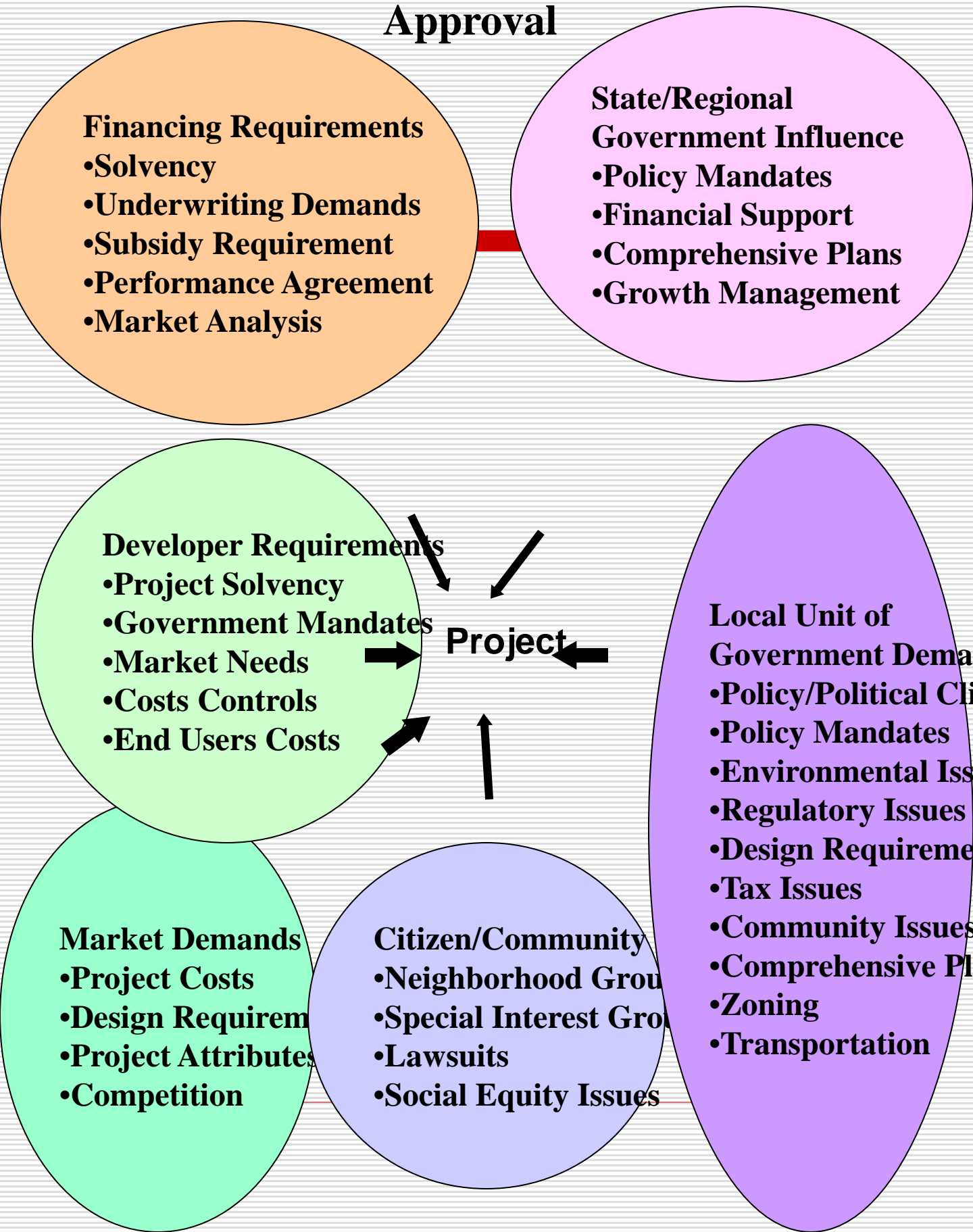
Negotiation Model for Development Project

Approval



Negotiation Model for Development Project

Approval



Owner

- The concept/idea for project.**
- Site acquisition and/or control.**
- Obtains municipal approvals.**
- Obtains and provides financing.**
- Contracts with design professionals.**
- Awards contracts.**

Design Professionals

- Architect. (AIA Contract)**
- Engineers.**
- Landscape Architects**
- Interior Designers**
- Civil Engineers**
- Structural Engineers**
- HVAC Engineers**
- Electrical Engineers**
- Plumbing Engineers**
- Fire Protection Engineers**
- Environmental Engineers**
- Several others (historic, acoustic, wind, transportation....)**

Design Professional's Role

- Advises in selecting contractors.**
- Advises in defining the scope of work.**
- Facilitates owner/contractor communication.**
- Monitors contractor work to be consistent with plans, design and bid.**
- Monitors progress.**

Architect

- Represents owner.
- Advises and consults with owner.
- Coordinates with other specializations.
- Prepares drawings.
- Coordinates drawings with other specializations.
- Verification of workmanship.
- Periodic inspection of project.
- Prepares punch lists. (list of deficiencies)

Contractor

- Coordinates construction based on design.**
- General contractor has direct relationship with the owner.**
- Awards subcontracts.**
(mechanical, electrical, roofing, structural, masonry, ...)
- Takes on risk. Weather, labor, sub contractor performance, material availability.**
- Risk management-control.**

Contractor

- Compliance with laws on job safety, licensing, employment, sanitation, insurance, traffic.**
- Follow plans.**
- Responsibility for materials and workmanship.**
- Supervises all sub contractors.**
- Alerts owner of design problems.**
- Prepares bid specifications.**
- Follows the contract.**

The Actors and the Environment



Primary Groups

- Space Consumer Group.**
- Space Production Group.**
- Public Infrastructure Group.**

Primary Groups

- Each group benefits from understanding the values, objectives and limitations of the other two groups.
- Each group benefits from cooperation with the other two groups.
- Each group is a cash cycle enterprise and must be solvent and retain a surplus for future activities.

Site

- Location value = the functional value of the activity not the site.**
- Example: families balance location (housing, shopping, employment, schools, recreation etc).**
- Location value is in the mind of the Space user—not the land.**

The Site + Improvements

- Land , Legal & Political Constraints.**
- Linkage Attributes.**
- Dynamic Attributes (Status).**
- Functional Needs of User Activity.**

Space Consumer Group

- Current Users**
/\$\$\$(buy/lease).
- Collective Users (activity via political system, taxes, fees & regulation).**
- Future Users (represented by proxy via developers, laws special interest groups).**

Space Production Group

- Material, Skills, Capital.**
- Creating and Maintaining Space.**
- Professional Expertise
(architects, lawyers etc.)**
- \$\$\$\$**

Public Infrastructure Group

- Services.**
- Utilities.**
- Security Systems.**
- Off-Site Systems.**

Public Infrastructure Group II

- Off site systems.
- Tangible and intangible.
- Physical Systems (Capital Facilities).
- Police, Fire and Regulation.

Interrelationships of the Three Groups

- ❑ Flows of Fees and Services Among the Three Groups to the Site.
- ❑ Need for Solvency in each Group.
- ❑ Mutual Dependencies Among Groups.

Real Estate Developers

- Development includes Redevelopment.
- Wealth and Glamour.
- Living with Uncertainty.
- Risks (managing vs. taking).
- Long term rewards.
- Events Never go as Planned.
- Reliance on Others.

Real Estate Developers

- No Real Control (public approvals).
- Need for Self Confidence.
- Experience.
- Start Small.
- 25-35% Personal Investment.

Who are developers ?

- Brokers.
- Contractors.
- Design Professionals.
- Investors.
- Importance on reputation.

Developers Must Control at Least One of the Following:

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Developers Must Control at Least One of the Following:

- Land (supply).**
- Tenants/Buyers (demand).**
- Capital.**
- Knowledge (market, space needs site looking for a use, HBU, joint venture with property owner, etc.)**

Understanding the Level of Control & dependence on others

- Issues of Control:**
Cost \$, Quality and Schedule.
- Idea stage---very strong.**
- Design stage--- strong.**
- Bidding stage---less strong.**
- Construction stage---weak.**

What Experienced Developers Tell Us

- ❑ **“People, People, People not Location, Location, Location.”**
- ❑ **“Importance of Scheduling and Achievable Goals.”**
- ❑ **“Time is Money---a lot of Money.”**

Survey of Experienced Developer Regarding the Need for More Knowledge

Better Understanding of:

- Regulatory Approvals.**
- Site Acquisition.**
- Project Design and Planning.**
- Market Analysis.**
- Equity Financing.**

Development Risks

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Development Risks

- Acquisition Risks (site control, title, easements, options expiring).**
- Entitlement Risks (public approvals).**
- Financial Risks (cost of debt and equity financing for construction and permanent financing).**

More Development Risks

- Construction Risks (on time, on budget and with a high standard of quality).**
- Market Risks (leasing rates and sales price).**
- Operating Risks (maintenance, operating expenses, taxes, utilities, adequate occupancy levels).**

Major influences on Real Estate Development

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Major influences on Real Estate Development

- Demand
- Supply
- Real Estate Cycles

Real Estate Cycles

- Timing is everything.**
- Change in interest rates = insufficient cash flow to finance property, residential buyers cannot finance or will wait on the purchase.**
- Competition from competing properties.**
- Too few customers.**

Real Estate Cycle Phases

- Recovery.
- Expansion.
- Hyper supply.
- Recession.

Real Estate Cycle Phases

- Recovery—The bottom of a cycle, the marketplace is in a state of oversupply from previous new construction or negative demand. As excess space is absorbed vacancy rates fall and rental rates stabilize.**

Real Estate Cycle Phases

- Expansion---demand continues to grow an increasing levels. This creates the need for additional space. As vacancy rates fall, rental rates rise to cost feasible levels. At this stage demand increases faster than supply.**

Real Estate Cycle Phases

- Hyper supply---Supply is growing faster than demand. When more space is constructed than demanded, rental rate growth slows and construction slows or stops.**

Real Estate Cycle Phases

- Recession---market experiences high supply growth and low or negative demand growth. The term of the recession cycle is determined by the difference between supply growth and demand growth. This cycle hits bottom when new construction slows and demand starts to grow faster than then the new supply of space.**

Real Estate Development Process

p.6

- 1. Inception of an Idea.**
- 2. Refinement of an Idea.**
- 3. Feasibility.**
- 4. Contract Negotiation.**
- 5. Formal Commitment.**
- 6. Construction**
- 7. Completion/Opening**
- 8. Asset Management**

Development Process Characteristics

- Importance of being aware of the Long Term Management Components of the Project.**
- Importance of Multidisciplinary skills and Dynamic Business.**
- Subject to Global Influences.**

Development Process Characteristics

- Not Linear.**
- Drivers are Creative and Intuitive.**
- Constant Repositioning and Renegotiation.**
- Importance of being Aware of the eight steps---not just the next step.**

Trends and Future Influences on Development--?



Future influences on Real Estate Development

- Urban Crisis.**
- Suburban Political Majority.**
- Deterioration of 1st Ring Suburbs.**
- Auto Based Sprawl.**
- Edge Cities**
- Next Cities**
- Demographics**
- Decreased Household Size**
- Technology**

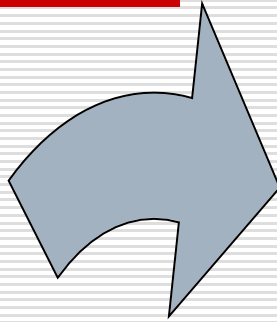
Future influences on Real Estate Development

- More Diverse Workforce.**
- Quality of Life Issues.**
- Team base Work Environments.**
- Security/Safety.**
- Mixed Use Development.**
- More 24/7 Activity.**

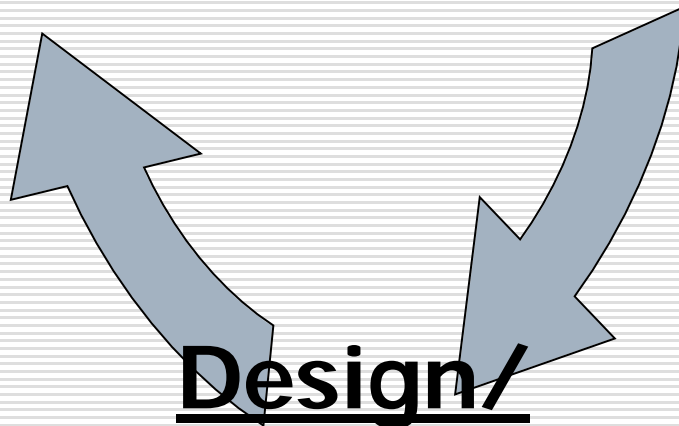
Future Influences on Development

- Technology (wireless, connectivity).**
- Smart Buildings.**
- Green Buildings.**
- Development Near Transportation.**
- Urban Infill Development.**
- Greater Density.**
- Private Public Partnerships.**

Developer Approaches to Project Feasibility

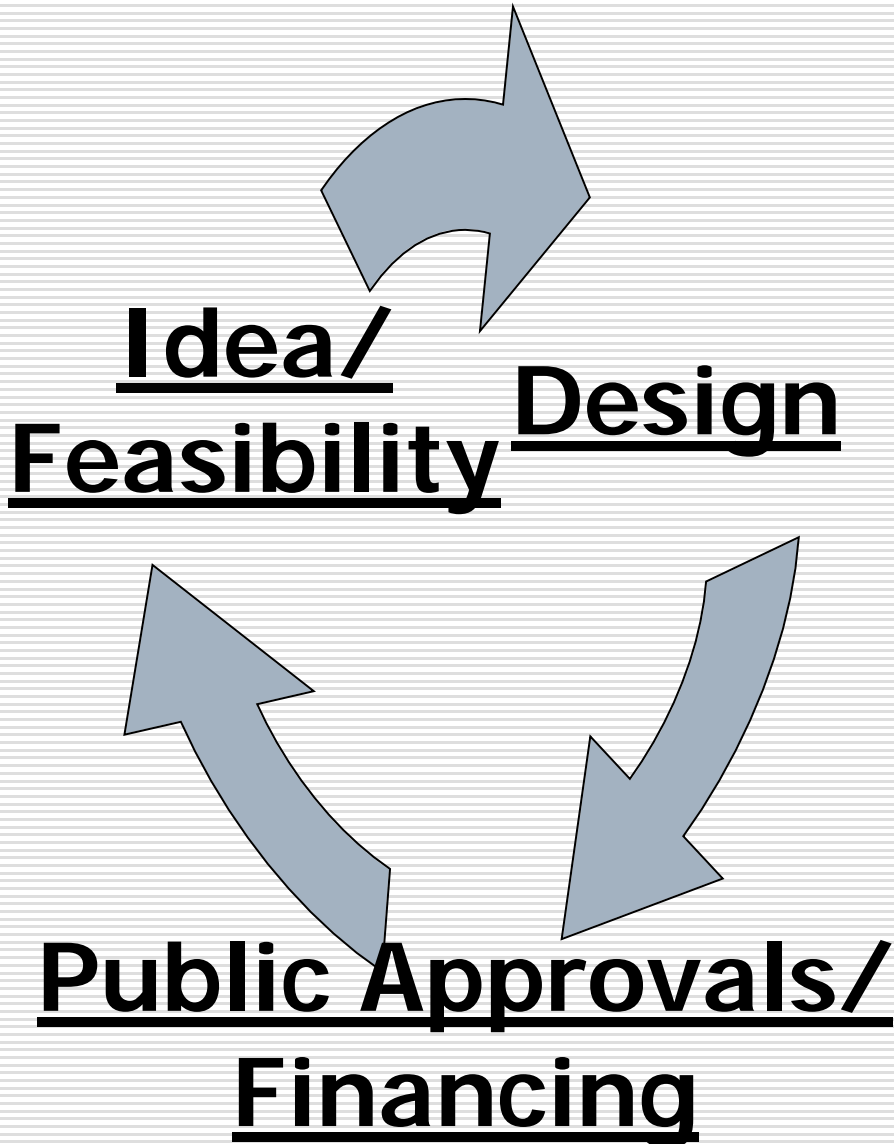


Concept Feasibility



**Design/
Public Approvals
Financing**

Process to Reach the Go/No Go Decision



Real Estate Development Total Marketing Concept

- ☐ What Customers Want.**
- ☐ Producing the Product.**
- ☐ Persuading the Customer to Buy or Lease.**

Development Marketing is Unique

- Highly Differentiated (serves several functions of space users).**
- Constraints on Supply.**
- Limited Market Information Resulting from Location Variables.**
- Product is custom Tailored and not Mass Produced.**